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C O N F I D E N T I A L SECTION 1 OF 2 USNATO 4368

E.O. 11652: GDS 12-31-80

TAGS: MCAP, NATO

SUBJECT: MINISTERIAL RESOURCE GUIDANCE

REF: STATE 168334

BEGIN SUMMARY: THIS MESSAGE GIVES MISSION VIEWS ON SCOPE AND CONTENT FOR RESOURCE GUIDANCE PORTION OF DRAFT MINISTERIAL GUIDANCE. ACTION REQUESTED: WASHINGTON VIEWS BY AUGUST 21 ON PROPOSED LANGUAGE FOR FORMULATION OF MINISTERIAL RESOURCE GUIDANCE. END SUMMARY.

1. MISSION BELIEVES MINISTERIAL RESOURCE GUIDANCE FOR ALLIED DEFENCE EFFORTS SHOULD PROMOTE DUAL OBJECTIVES OF MAINTAINING/INCREASING PRESENT CAPABILITIES AND IMPROVING EQUITABILITY OF DEFENSE COST DISTRIBUTION AMONG MEMBER NATIONS. PAST EFFORTS TOWARD ENCOURAGING ALLIES TO MAINTAIN/INCREASE THEIR EXISTING LEVELS OF DEFENSE EFFORTS HAVE TENDED TO ACCEPT CONSIDERABLE INEQUITIES IN CONTRIBUTIONS TO DEFENSE AMONG NON-US MEMBERS OF THE ALLIANCE.

TABLE I

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NATO ECONOMIC STATISTICS (1974)

COUNTRY	GNP (F.C.)	DEF BUDGET		PER CENT OF GNP	RANK
	1974 (MIL- LIONS \$)	RANK	AS		
UNITED STATES	1,296,547	1		6.4	1
GERMANY	339,253	2		3.9	6
FRANCE	264,719	3		3.8	7
UK	170,769	4		5.4	2/3
ITALY	153,168	5		3.0	10/11
CANADA	118,935	6		2.2	13
NETHERLANDS	59,453	7		3.7	8
BELGIUM	46,857	8		3.0	10/11
DENMARK	27,497	9		2.3	12
TURKEY	23,478	10		4.3	4
NORWAY	18,527	11		3.5	9
GREECE	16,916	12		4.1	5
PORTUGAL	12,153	13		5.4	2/3
LUXEMBOURG	1,854	14		0.9	14
ICELAND	1,063	15		-	-

TABLE I (CONTINUED)

NATO ECONOMIC STATISTICS (1974)

COUNTRY	GNP	DEFENSE EX- PENDITURE		PER CAPITA	RANK
	PER CAPITA	RANK			
UNITED STATES	6,101	1		392	1
GERMANY	5,607	2		220	2
FRANCE	5,028	6		191	3
UK	3,031	11		162	4
ITALY	2,771	12		83	10
CANADA	5,301	4		115	9
NETHERLANDS	4,376	10		161	5/6
BELGIUM	4,796	8		144	7
DENMARK	5,438	3		127	8

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TURKEY	604	15		26	14
NORWAY	4,640	9		161	5/6
GREECE	1,871	13		76	12
PORTUGAL	1,438	14		77	11
LUXEMBOURG	5,267	5		49	13
ICELAND	4,991	7		-	-

2. TABLE 1 (ABOVE) RANKS ESTIMATED 1974

DEFENSE EXPENDITURES OF ALLIES BASED ON NATO DATA DRAWN FROM ISM(74)7. RELATIVE NATIONAL EXPENDITURES TOWARD DEFENSE ARE BADLY OUT OF LINE WHEN COMPARED WITH COUNTRY TOTAL AND PER CAPITA GNP FIGURES. FOR EXAMPLE, ESTIMATED DANISH DEFENSE EXPENDITURES FOR 1974 ARE \$127 PER CAPITA, WHICH RANKS EIGHTH IN THE ALLIANCE;

DANISH GNP PER CAPITA RANKS THIRD AT \$5,438. CONVERSELY, ESTIMATED 1974 UK DEFENSE EXPENDITURES PER CAPITA ARE \$162 (EXCEEDED AMONG THE EUROPEAN ALLIES ONLY BY FRANCE AND THE FRG) WHILE BRITISH GNP PER CAPITA RANKS ELEVENTH IN THE ALLIANCE AT \$3,031. OTHER FINANCIAL INEQUITIES ARE ALSO APPARENT IN TABLE 1, AND ISM(74)7 SUGGESTS SIMILAR DISPARITIES IN ALLIANCE MANPOWER CONTRIBUTIONS.

3. MISSION RECOGNIZES THAT NATIONAL FINANCIAL CONTRIBUTIONS TO THE ALLIANCE ARE AFFECTED BY A HOST OF SPECIAL DOMESTIC CIRCUMSTANCES AND CARRY MOMENTUM WHICH CANNOT BE TOTALLY ALTERED BY MINISTERIAL GUIDELINES. HOWEVER, THE GRADUAL EROSION OF ALLIED DEFENSE BUDGETS RELATIVE TO GNP'S DURING THE PAST SEVERAL YEARS PLUS THE APPARENT INEQUITIES AMONG RELATIVE CONTRIBUTIONS TO DEFENSE FROM MANY ALLIES SUGGEST THE NEED FOR MORE STRINGENT STANDARDS. WE BELIEVE FORTH-COMING MINISTERIAL RESOURCE GUIDANCE SHOULD -) RESTATE THE CURRENT MINIMUM GOAL FOR NATIONS TO MAINTAIN/INCREASE REAL RESOURCE ALLOCATIONS TO THE ALLIANCE IN THE NEAR TERM AND IN ADDITION ?) SET OUT EQUITABLE STANDARDS FOR MINIMUM NATIONAL PERCENTAGES OF GNP THAT SHOULD BE CONTRIBUTED BY ALLIES FOR THE "LONG HAUL." SUCH EXPLICIT STANDARDS SHOULD RECOGNIZE DIFFERING RESOURCE BASES OF ALLIANCE MEMBERS; SHOULD BE INDEPENDENT FROM FLUCTUATING (MOSTLY DOWNWARD) SO-CALLED NATO AVERAGES; AND SHOULD RESULT, WHEN IMPLEMENTED, IN THE MAINTENANCE/IMPROVEMENT OF NATO'S COLLECTIVE DEFENSE CAPABILITY.

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4. MISSION RECOMMENDS WASHINGTON CONSIDER UTILITY OF MINISTERIAL GUIDANCE CITING COMMON PROPORTION OF NATIONAL FINANCIAL BASES AS MINIMUM OBJECTIVES FOR ALLIED CONTRIBUTIONS IN THE "LONG HAUL." FOR THOSE COUNTRIES REQUIRING SUBSTANTIAL INCREASES IN DEFENSE SPENDING TO MEET THESE OBJECTIVES, GUIDANCE SHOULD ENCOURAGE

PROGRESSIVE IMPLEMENTATION OVER A PERIOD OF YEARS. FOR THOSE COUNTRIES CURRENTLY CONTRIBUTING MORE THAN THE MINIMUM OBJECTIVES, GOALS COULD BE TO MAINTAIN CURRENT RATES OF EXPENDITURES. FOR ILLUSTRATIVE PURPOSES, WE EXAMINED 4 PERCENT AS A MINIMUM COMMON PROPORTION OF GNP FOR DEFENSE. TABLE 2 (BELOW) DESCRIBES THE LEVELS OF SPENDING WHICH WOULD HAVE RESULTED DURING 1974 IF THOSE ALLIES BELOW 4 PERCENT HAD RAISED THEIR DEFENSE BUDGETS ACCORDINGLY. THE IMMEDIATE OBJECTIVE OF MAINTAINING/INCREASING OVERALL NATO EUROPE RESOURCES FOR DEFENSE WOULD HAVE BEEN ACHIEVED; THE SKEWED PATTERN OF ACTUAL CONTRIBUTIONS WOULD HAVE BEEN SUBSTANTIALLY ALTERED TOWARD WHAT APPEARS TO BE A MORE EQUITABLE DISTRIBUTION OF EXPENDITURES.

TABLE 2

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ILLUSTRATIVE EXAMPLE

DEFENSE BUDGETS AT 4 PERCENT OF
GNP (IN MILLIONS \$)

COUNTRY	CURRENT GNP	PROPOSED 1974 EST. AT 4 PER CENT
GERMANY	339,253	13,290 13,570
FRANCE	264,719	10,045 10,589
ITALY	153,168	4,594 6,127
CANADA	118,935	2,584 4,757
NETHERLANDS	59,453	2,188 2,378
BELGIUM	46,857	1,406 1,874
DENMARK	27,497	644 1,100
NORWAY	18,527	644 741
LUXEMBOURG	1,854	17 74

TOTAL	1,030,263	35,412 41,210

5. ONE REFINEMENT TO ILLUSTRATIVE 4 PERCENT MINIMUM TARGET FOR DEFENSE SPENDING IN TERMS OF GNP SEEMS TO MERIT CONSIDERATION. RECENT TRENDS AMONG MANY ALLIES TOWARD DECREASED SPENDING FOR MAJOR EQUIPMENT RELATIVE TO PERSONNEL MIGHT JUSTIFY SETTING SEPARATE MINIMUM SPENDING OBJECTIVE FOR THE FORMER CATEGORY.

6. IN SUMMARY, THE MISSION PROPOSAL CALLS FOR FINANCIAL GUIDANCE THAT MIGHT READ SOMETHING LIKE THIS:

BEGIN QUOTE: "THE DEFENSE EFFORT OF THE NATO NATIONS IN TERMS OF ECONOMIC RESOURCES SHOWS GREAT DISPARITY. THE PERCENTAGE OF GNP DEVOTED TO DEFENSE BY THE NATIONS ASSUMING THE HEAVIEST ECONOMIC BURDENS IS OVER TWO TIMES THAT OF THE NATIONS AT THE OTHER END OF

THE SCALE. THESE DISPARITIES SHOULD BE SUBSTANTIALLY REDUCED OVER THE NEXT FEW YEARS BY SHARPLY INCREASED DEFENSE EXPENDITURE ON THE PART OF NATIONS THAT PRESENTLY DEVOTE THE LOWEST PERCENTAGE OF GNP TO DEFENSE.

"NO NATO NATION SHOULD DEVOTE LESS THAN 4 PER CENT OF ITS GNP TO DEFENSE. NATIONS THAT CURRENTLY FALL BELOW THIS LEVEL
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SHOULD STEADILY INCREASE DEFENSE SPENDING SO AS TO ATTAIN IT BY THE END OF THE PLANNING PERIOD COVERED BY THIS GUIDANCE. NATIONS WHICH EXCEED THIS MINIMUM STANDARD SHOULD MAINTAIN THEIR 1974 LEVEL OF DEFENSE SPENDING IN TERMS OF GNP UNTIL THE CRITICAL DEFICIENCIES IN NATO DEFENSES ARE REMEDIED.

"IN VIEW OF THE NEED TO PROVIDE THE MILITARY FORCES OF ALL NATO NATIONS WITH MODERN EQUIPMENT ON A LARGE SCALE DURING THE PLANNING PERIOD, ALL NATO NATIONS SHOULD DEVOTE AT LEAST (BLANK) PERCENT OF THEIR (GNP) OR (DEFENSE EXPENDITURES) TO PROCUREMENT OF EQUIPMENT. END QUOTE.

7. ASYG HUMPHREYS RECENTLY TOLD MISSION OFFICER THAT INITIAL IS WORK ON DRAFT MINISTERIAL GUIDANCE IS CONCENTRATING ON RESOURCES AREA. THUS, IF TOTAL WASHINGTON MINISTERIAL GUIDANCE PACKAGE IS NOT AVAILABLE WITHIN NEXT TEN DAYS, MISSION BELIEVES THAT US SUGGESTIONS FOR RESOURCE PORTION OF GUIDANCE SHOULD BE SENT INDEPENDENTLY BY AUGUST 21 SO MISSION CAN MAKE A TIMELY INPUT TO CURRENT IS WORK.
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